

Collections Performance Audit

February 2011

DURHAM



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CITY OF DURHAM

Memorandum

To: Audit Services Oversight Committee
From: Germaine Brewington, Director of Audit Services
Date: February 21, 2011
Re: Transmittal of Collections Performance Audit (February, 2011)

Attached is the Collections Performance Audit Report. The purpose of the audit was to assess the effectiveness of the collection procedures for delinquent fees.

This report presents the observations and recommendations of the Collections Performance Audit. City management concurs with the recommendations made. Management's response to the recommendations is included with the attached report.

The Audit Services Department appreciates the contribution of time and other resources from the employees of the Finance, Water Management, Solid Waste, Public Works and Technology Solutions Departments.

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BACKGROUND INFORMATION

Adequate controls over the collection of accounts receivable are an indispensable component of any government's overall financial management program. This audit focuses on the controls over collection of revenues from the following sources:

- Water fees
- Sewer fees
- Storm water fees
- Solid waste fees (only solid waste fees that are charged to the water bill)

The City billed approximately \$86,705,957 for fiscal year 2010 for the above-mentioned services.

Billing process for the above-mentioned accounts:

Water and Sewer Fees

- *Metered water and sewer accounts:*

Commercial, industrial and institutional meters, 1.5 inches or larger, are read and billed monthly. Residential and small business meters, 1 inch or smaller, are read and billed bi-monthly. Bills are due 27 days after the billing date and late fees accrue after the bill is 3 days delinquent.

- *Fixed sewer only consumption charges:*

Some customers are "sewer only" customers and do not have meters. These customers pay a fixed fee based on the number of persons in the household. Annually, these customers must send in an affidavit on which they report the number of persons living in the household. Failure to return the affidavit results in billing at the highest fixed charge. The City bills sewer only consumption charges on a monthly basis.

Storm Water Fees:

The amount of impervious area on a property determines the storm water fees. The City charges a storm water utility fee of all owners of publicly or privately developed land within the City limits. Non-residential properties are billed based on the number of Equivalent Residential Units (ERU) of impervious area that are on the property. In

BACKGROUND INFORMATION (CONTINUED)

Durham, an ERU is equal to 2,400 square feet and the charge for commercial properties is \$4.92/month per ERU.

Residential properties are assigned to one of the following tiers based on the amount of impervious area on the property:

- Tier 1: Properties with less than 2,000 square feet of impervious area are charged a yearly storm water utility rate of \$28.44;
- Tier 2: Properties with impervious areas between 2,000 square feet and 4,000 square feet are charged a yearly storm water utility rate of \$59.04; and
- Tier 3: Properties with more than 4,000 square feet of impervious area are charged a yearly storm water utility rate of \$118.08.

The customer can elect either to have the storm water fees processed on the bi-monthly water and sewer bill or to receive an annual bill.

Solid Waste Fees:

The Solid Waste Department provides yard waste collection service to residents of the City at an annual rate of \$60. There is an additional \$18 rental charge for the container and any additional or replacement containers requested. Customers that have containers that were provided by the Solid Waste Department prior to 2008 do not have to purchase new containers. These customers only have to purchase the service for the present year and display the proper color-coded sticker on their old containers in order to have any yard waste collected. Customers have the option of paying for the service prior to receiving the service, or having the charges added to their bi-monthly water bill. The rate charged per month for pickup service for one cart is \$5; \$1.50 per month for any additional carts requested. The scope of this audit is limited to the collection of solid waste fees billed as part of the water bill.

BACKGROUND INFORMATION (CONTINUED)

Table 1: Outstanding Accounts Receivable Balances as of February 1, 2011

Types of Fees	Days Delinquent						Total
	Current	1-30	31-60	61-90	91-120	> 120	
Water and Sewer	\$3,337,483	\$783,195	\$367,009	\$335,329	\$175,351	\$4,583,109	\$9,581,476
Storm Water	\$394,337	\$72,512	\$27,810	\$19,356	\$15,971	\$652,819	\$1,182,805
Solid Waste Disposal	\$38,005	\$8,780	\$1,704	\$1,067	\$235	\$7,540	\$57,331
Other	\$0	\$0	\$0	\$0	\$0	\$1,492	\$1,492
Total	\$3,769,825	\$864,487	\$396,523	\$355,752	\$191,557	\$5,244,960	\$10,823,104

BACKGROUND INFORMATION (CONTINUED)

The significant outstanding balance of \$10,823,105 justifies examining the controls in place over collection of delinquent accounts.

The audit which was performed by McGladrey & Pullen, LLP, of the City's financial statements for year ended June 30, 2009, highlighted a material weakness in the area of collection of delinquent accounts. Per the external auditor, the City had: 1) a number of active past due customer accounts for which the City was continuing to provide utility services; 2) a significant amount of utility receivables that may or may not be collectible, thereby increasing the risk of a misstatement in the City's financial statements regarding the collection allowances. In the most recent audit performed for year ended June 30, 2010 the external auditor stated that, the City started the process of implementing new collection procedures designed to collect past due accounts and limiting the period of service that a past due account may continue to incur new charges. They also stated that the City has not fully implemented the new procedures.

The focus of this audit is to examine the effectiveness of controls over delinquent accounts in detail. The audit will take into consideration steps implemented to date by management to address the deficiency noted by the external auditor.

Purpose

The purpose of the audit was to assess the effectiveness of the collection procedures for delinquent fees.

We conducted this performance audit in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

The City has collected 98% of all bills generated in FY 2010 as of January 31, 2011. Overall, controls over collection of past due water and sewer fees need to be strengthened. A lack of established procedures/policies and clearly defined roles and responsibilities over collection efforts between the Customer Billing Services (CBS) Division and General Billing and Collection (GBC) Division have led to ineffective controls relative to the monitoring and collection of non-active accounts and sewer only accounts. In addition, overall monitoring of past due accounts is not sufficient to identify areas where collection efforts are lagging.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives of the audit were to:

- Determine if adequate controls exist over collection of water and sewer fees, storm water charges and limited solid waste fees;
- Determine if adequate policies and procedures exist over the collection process;
- Determine if roles and responsibilities for collecting are clearly defined;
- Verify if adequate controls exist over write off of accounts receivable, that are deemed uncollectable; and
- Determine the collection rate of the fees collected (total billed vs. total collected on those bills).

Scope

The Scope of the audit included all current practices at the City over the collection of delinquent water and sewer fees, storm water charges and solid waste fees that are charged to the water bill.

Methodology

Audit staff performed the following procedures to verify the objectives of the audit:

- Interviewed employees responsible for the collection of delinquent accounts at the Departments of Water Management, Public Works, and Solid Waste;
- Interviewed Finance Department personnel to determine their role in the collection process;
- Obtained and reviewed ordinances;
- Determined the collection rate by comparing total billed for FY 2010 to total collected on the FY 2010 bills as of January 31, 2011;
- Inquired about policies and procedures in place over the collection process;
- Selected a sample of past due accounts and verified the steps taken by the responsible party to collect on those accounts; and
- Verified if the "cutoff remedy" was administered by the Customer Billing Services staff to ensure collection on past due accounts.

During the audit, the staff also maintained awareness to the potential existence of fraud.

The City has collected 98% of all bills generated in FY 2010 as of January 31, 2011.

Amount billed in FY 2010 (July 1, 2009 to June 30, 2010)	\$ 86,705,957
Amount collected through January 31, 2011	\$ 85,139,851
FY 2010 bills outstanding at January 31, 2011	\$ 1,566,106
% of FY 2010 bills collected through January 31, 2011	98%

The 98% collection rate should not diminish the need for a strong collection effort at the City. Outstanding FY 2010 bills to date are approximately \$1,566,106. Albeit this only represents approximately 2% of the total billed in FY 2010, the dollar amount is material to the operations of the City. At this time of budgetary crisis any collection on the approximately \$1.6 million in outstanding bills would provide additional funds to the City for its operations.

The City has collected approximately 89% of all bills generated during the period of July 1, 2010 to January 31, 2011. Audit staff compared this collection rate to the prior period collection rate for all bills generated from July 1, 2009 to January 31, 2010. The City collected approximately 89% of all bills generated from July 1, 2009 to January 31, 2010. This analysis demonstrates that the City, for all FY 2011 billings, is on track to achieving the same collection rate incurred in FY 2010.

At the request of the Audit Services staff, the Technology Solutions Department has developed a real time charges/collection report that will display the collection rate for a specified period. This report is available on the City's intranet and can serve as a useful tool to monitor the collection rate.

AUDIT RESULTS (CONTINUED)

Overall, controls over collection of past due water and sewer fees need to be strengthened.

Sound business practices suggest that the City should have adequate controls over the collection of delinquent accounts. As a result of interviews held with responsible employees of the Customer Billing Services (CBS) Division of the Water Management Department and the General Billing and Collection (GBC) Division of the Finance Department, it was apparent that the collection process differed based on the type of delinquent account. To better analyze the collection efforts, audit staff sorted the delinquent accounts in the following categories:

- active water and sewer metered accounts (residential and non-residential)
- non-active water and sewer metered accounts (residential and non-residential)
- sewer only consumption accounts

Table 2 below summarizes the controls in place over collection by the different account types.

Table 2: Controls by Account Type

<u><i>Account Type</i></u>	<u><i>Collection Efforts</i></u>	<u><i>Details</i></u>
Active water and sewer metered accounts (residential and non-residential)	Adequate for past due residential and non-residential small meter accounts	Cutoff procedures appear to be processed for residential customers and non-residential customers with an inch or less water meter.
	Inadequate for past due non-residential large meter accounts	Cutoff procedures are not processed for non-residential customers with large meters; however, the customer service representatives do perform additional notification measures. Currently, these past due accounts are not referred to the GBC Division.
		The debt setoff process is utilized for residential customers that provide social security numbers.
		The debt setoff process is not a vehicle for collecting past due non-residential accounts, unless a social security number or Tax ID number has been obtained.

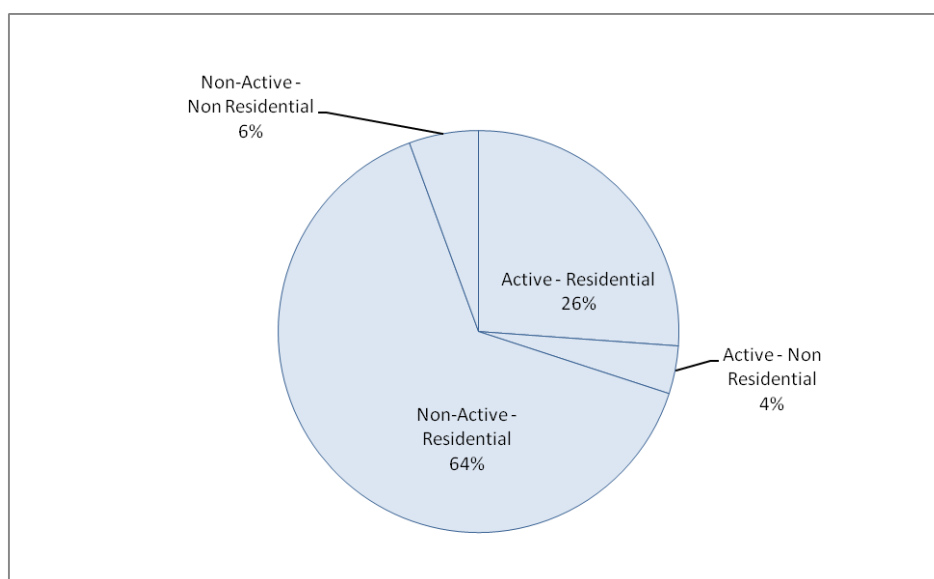
AUDIT RESULTS (CONTINUED)

Table 2 (continued): Controls by Account Type

<u>Account Type</u>	<u>Collection Efforts</u>	<u>Details</u>
Non-active water and sewer metered accounts	Inadequate	<p>Responsibility of collecting not clearly defined.</p> <p>The debt setoff process is initiated for customers that provide social security numbers.</p> <p>The GBC Division if notified of specific past due accounts will undertake collection efforts.</p> <p>The Departments of Water Management and Finance are in the process of selecting outside agencies to help facilitate collection of past due balances.</p>
Sewer only accounts	Inadequate	The debt setoff process is utilized for customers that provide social security numbers.

Audit staff analyzed the outstanding accounts receivable balance as of February 1, 2011 by account types. The current and 1-30 days delinquent accounts were not included in this analysis as collection efforts do not start until accounts are a minimum of 24 days delinquent. The outstanding accounts receivable for water and sewer fees are as follows:

Chart 1: Outstanding Accounts Receivable- February 1, 2011



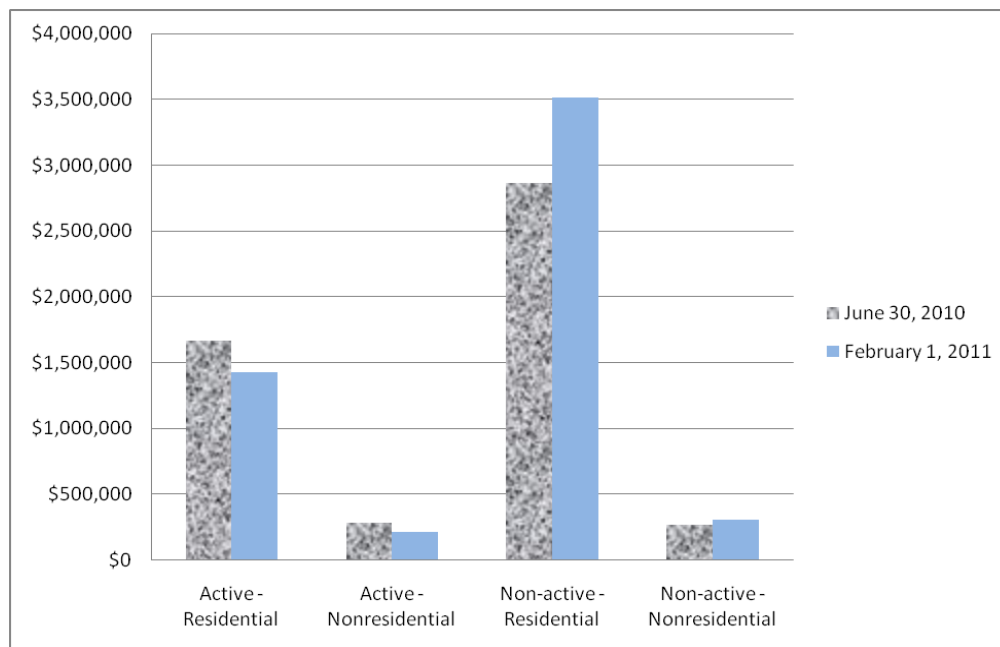
AUDIT RESULTS (CONTINUED)

This information highlights the following issues:

Sixty-four (64%) of the total water and sewer outstanding receivables are past due non-active residential accounts. This could reflect potential issues with controls over collection of non-active residential accounts. Twenty-six (26%) of the total water and sewer outstanding receivables are past due active residential accounts. The audit did not reveal evidence of analyses performed on receivables to identify areas for improvement. Reviewing accounts that are delinquent and initiating the necessary steps to collect on these accounts can help strengthen the collection process.

Audit staff also analyzed the change in overall accounts receivable as of June 30, 2010 compared to February 1, 2011. The following chart outlines the results:

Chart 2: Change in Accounts Receivable - June 30, 2010 to February 1, 2011



The chart reflects that the active residential receivables balance has decreased, while the non-active residential receivables balance has increased. This collective data indicates that the collection efforts over non-active residential accounts are insufficient.

A lack of established procedures/policies and clearly defined roles and responsibilities over collection efforts between the CBS and GBC have led to ineffective controls of non-active accounts and sewer only accounts. In addition, overall monitoring of past

AUDIT RESULTS (CONTINUED)

due accounts is not sufficient to identify areas where collection efforts are lagging. This translates into lost revenue to the City.

Details of the collection process are described below.

- *Metered Water and Sewer Accounts*

- *Active Accounts*

The process in place to collect on past due metered water and sewer active accounts which are 1 inch or less in size is as follows:

- customer has 27 days to pay the bill;
- after the account is 4 days delinquent a friendly reminder letter is sent to the customer;
- once the account is 11 days delinquent a cutoff notice letter is sent to the customer;
- after the account is 17 days delinquent a phone notice is sent to the customer via the Phone Tree System; and
- when the account is 24 days delinquent, cutoff should be processed. The CBS processes cutoffs for the district billed that is at least 24 days delinquent. MUNIS generates a cutoff list which includes delinquent metered accounts except for accounts that have negotiated a payment plan or established hardship.

Administering cutoffs effectively is the most valuable remedy that the City has for collecting active delinquent accounts. The CBS staff stated that they diligently cutoff service to delinquent residential customers and non-residential customers with small meters. Audit staff selected a sample of 70 accounts from the September 27, 2010 cutoff list to determine if water service was turned off for nonpayment on these accounts. The following are the results of that review.

- 41 accounts did not have notes in MUNIS to indicate cutoff was administered;
- 18 accounts had initiated payment arrangements and therefore did not need to be cutoff;
- 2 accounts had incorrect addresses; and
- service was disconnected for 9 accounts, per MUNIS notes.

AUDIT RESULTS (CONTINUED)

The audit staff could not validate if the CBS Division is administering cutoffs effectively. The CBS representatives do not document information about processed cutoffs in MUNIS on a consistent basis.

According to CBS staff, a cutoff remedy was not used for past due non-residential customers with large meters. The CBS Division has developed standard operating procedures relating to accounts with 1.5 inch and larger (non-residential) meters. As part of the process, they have re-evaluated the cutoff protocols for past due non-residential accounts per the City Manager. In absence of administering the cutoff process, customer service representatives administer additional notification measures.

Payment plans are a remedy available to customers who cannot meet the payment deadlines. Customers who are unable to pay by the due date can make payment arrangements with CBS and delay ramifications of non-payment. Past due accounts with payment arrangements are not included in the cutoff list. Every customer representative in the CBS Division can administer payment plans. Decisions regarding arrangements are made on a case-by-case basis and there is no limit on the number of payment arrangements allowed. There are no guidelines restricting the number of payment plans on any given account. It is the individual representative's responsibility to monitor if the customer has adhered to the payment arrangement. If the account holder has not fulfilled the payment arrangement, services should be cutoff. Audit staff found several instances of more than three payment plan arrangements on an account.

The debt setoff process is another tool that is used to collect on past due active accounts. This program is processed by GBC. The North Carolina Association of County Commissioners (NCACC) and the North Carolina League of Municipalities (NCLM) sponsor a joint debt setoff clearing house through which local governments may submit any outstanding delinquent debt (totaling \$50 or more). The delinquent accounts are submitted through the clearinghouse to the NC Department of Revenue to attempt to offset delinquent debts against individual income tax refunds. Social security information is required in order to process accounts through debt setoff. The City submits the name, social security number and the full amount of the debt owed to the debt setoff program and if a debt claim matches with a taxpayer's refund or lottery winning, an intercept will occur.

There are several drawbacks to the debt setoff process. The City cannot require customers to provide a social security number to initiate services, therefore, past due accounts that do not have social security number information on file cannot be processed through the debt setoff program. In addition, other creditors' claims might have priority over the City's claim based on the date the claim was filed. According to the North Carolina Local Government Debt Setoff Clearing House, the City submitted a total debt amount of \$5,006,467 as of December 14, 2010. Of the total debt submitted, \$1,244,792 (approximately 25%) has been recovered.

The City does not currently send past due accounts to a collection agency. The Finance and Water Management Departments have issued the RFP for outside collection agencies with an established and proven record of collecting past due balances. The collection agencies may be able to collect on accounts not currently recoverable through the debt setoff program.

- *Non-active accounts*

The City does not have adequate controls to collect on past due non-active accounts. These accounts can go unnoticed and not pursued for collection. According to CBS the collection of non-active past due accounts is the responsibility of the GBC Division. The GBC Division administers the debt setoff process for non-active accounts with valid social security numbers on file. The GBC Division does not undertake additional collection efforts unless the CBS Division notifies them of specific accounts that they need to pursue.

- *Sewer only accounts collection process*

The City does not have adequate controls to collect on "sewer only" accounts other than administering the debt setoff process if a valid social security number is on file. These accounts can go unnoticed and not pursued for collection.

Storm water fees and solid waste fees processed on water bills.

The collection procedures for past due water and sewer fees also apply to storm water charges and solid waste charges that appear on the utility bill. Payment made on past due customers bills are applied to the payment of outstanding debt as follows (first to last):

- 1) miscellaneous fees
- 2) cutoff fees
- 3) solid waste charges
- 4) storm water charges
- 5) sewer charges
- 6) water flat charges
- 7) water usage charges.

The Solid Waste Department does not monitor outstanding past due accounts that are processed via the utility bill. The total past due balance for solid waste fees is immaterial.

Adequate controls exist over collection of Storm Water fees.

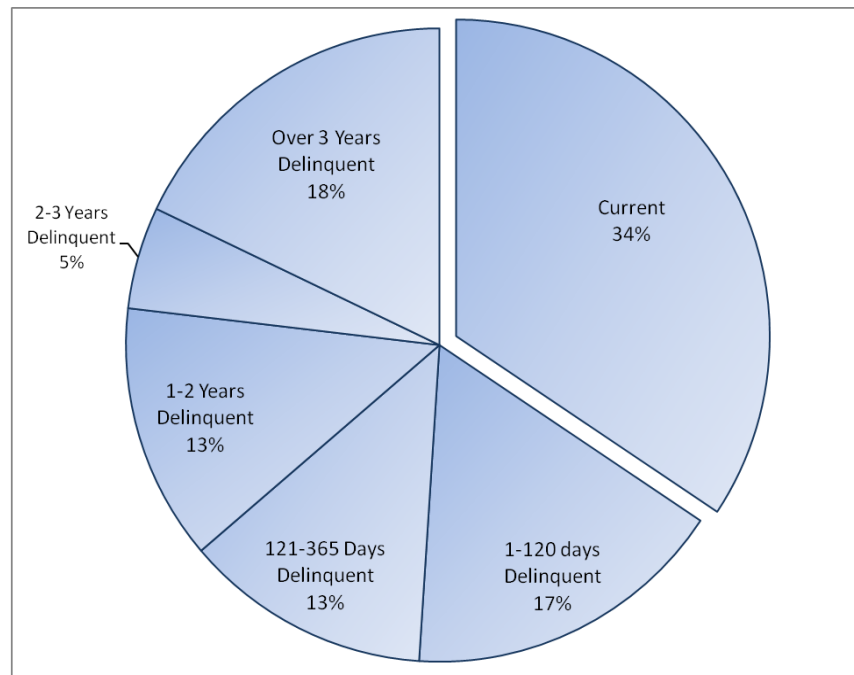
Storm water service charges are due within 21 days after issuance of the bill. Bills not paid within this time will be charged interest at the rate of 1% per month.

The Storm Water Division staff monitor storm water charges billed separately and undertake collection efforts within their department. Collection of storm water fees was difficult prior to 2005. Problems existed with incorrect measurements of the impervious areas causing incorrect billing to customers from 1994 - 2005. There were also problems identifying the correct individuals to bill (owner or occupant, housing association or tenant). In 2008, the Storm Water Division initiated utilization of the MUNIS system to track the billing and collection processes. Debt collection efforts regarding the identification of owners and accurate billing rates has allowed the Storm Water Division to provide the GBC Division with a list of accounts for which action can be taken to collect revenue owed to the City. The Storm Water Division has made a positive impact on the collection of storm water debt since its reorganization.

A policy to write off bad debts does not exist.

The City should have a policy in place to write off uncollectible past due accounts.

Chart 3: Accounts Receivable Aging Summary as of February 1, 2011



Approximately \$3.9 million of the \$10.8 million (36%) outstanding accounts receivable as of February 1, 2011 are more than one year delinquent. There is no guideline or policy that dictates when an account is considered uncollectible and ready for write off. Presently, the old past due accounts are not examined on a regular basis to determine if write off is necessary.

Recommendation 1

The Water Management Department in conjunction with the Finance Department should either establish or revise written procedures for collection of delinquent accounts. The procedures should:

- outline collection procedures for active and non-active residential and non-residential accounts, and sewer only accounts; and
- clearly outline the responsibility of the GBC Division versus CBS Division over collection. For instance, specify the responsible party for collection of all non-active accounts and sewer only accounts; and
- clearly establish the period when delinquent accounts reach eligibility for referral to the GBC Division; and
- establish a specific plan to address collection of non-active residential accounts. It should contain steps beyond the setoff program to ensure all reasonable efforts are utilized to collect the receivable.

Recommendation 2

The Water Management Department should strengthen monitoring of delinquent accounts by:

- tracking data and trends on delinquent accounts over time;
- obtaining aging reports by account type to monitor collection activity; and
- analyzing the information and taking specific steps to determine the cause of delinquency. For instance, once an active account is 61 days delinquent, staff should follow up to determine why it is not paid or cutoff.

Recommendation 3

The Water Management Department should develop payment plan guidelines. The guidelines should at least include:

- eligibility criteria;
- maximum number of payment plan arrangements that can be received on an account;
- procedures to ensure customers adhere to payment plan arrangements;
- documented evidence of monitoring; and
- supervisory approval for exceptions to guidelines.

RECOMMENDATIONS (CONTINUED)

Recommendation 4

The Finance Department should retain the services of collection agencies to facilitate collection of past due accounts. The Water Management and Finance Departments should establish and approve guidelines to govern the roles of the collection agency and City employees involved in the process. All processes should be clearly defined.

Recommendation 5

The Water Management Department should examine past due balances that are delinquent 3 years or more and determine if they are collectible. The Department should write off any uncollectible debt.

Recommendation 6

The Finance Department should establish a write off policy. The write off policy should clarify who is responsible for determining accounts for write off and the eligibility criteria necessary for account write off.



CITY OF DURHAM | NORTH CAROLINA

Memo to: Germaine F. Brewington, Director of Audit Services
From: Donald F. Greeley, Director, Department of Water Management
David Boyd, Director, Finance Department
Date: February 21, 2011
Subject: Management's Response
Collections Performance Audit Report- February 2011

The following is a collaborative response from the departments of Finance and Water Management regarding the Collections Performance Audit dated February 2011. As the report indicated, the audit focused on controls over collection of revenues from water and sewer fees as well as storm water and solid waste fees. The collections process crosses departmental responsibilities and involves staff in Customer Billing Services (CBS-Water Management) and General Billing and Collection (GBC-Finance Department). Thus, the responses below have been coordinated between department staff and address the recommendations from both the Department of Water Management and Finance Department perspective, depending on which department has responsibility and control over the specific areas.

Recommendation 1:

The Department of Water Management in conjunction with the Finance Department should either establish or revise written procedures for collection of delinquent accounts. The procedures should:

- outline collection procedures for active and inactive residential and non-residential accounts, and sewer only accounts,
- clearly outline the responsibility of the GBC division versus CBS division over collection. For instance, specify the responsible party for collection of all non-active accounts and sewer only accounts, and
- clearly establish the period when delinquent accounts reach eligibility for referral to the GBC division.
- establish a specific plan to address collection of non-active residential accounts. It should contain steps beyond the setoff program to ensure all reasonable efforts are utilized to collect the receivable.

Management's Response:

We concur. Management is in agreement with the recommendation and has been working over the past several months to update existing policies and procedures and establish additional procedures as issues/concerns arise.

- Active residential and non-residential accounts are addressed through the existing cut-off procedure. Effective January 1, after receiving the City Manager's approval, Water Management staff began implementing the cut-off process for large meter customers. Implementing a process for sewer-only accounts is more challenging; however staff will

MANAGEMENT'S RESPONSE (CONTINUED)

- be bringing protocol and fee schedule to City administration early in the third quarter of this fiscal year, with fees to be adopted in the budget process if approved.
- Department of Water Management and Finance staff will draft a memorandum of understanding (MOU) to address/outline responsibilities. Clarification with respect to the hand-off of inactive accounts from CBS to GBC will be assured to provide seamless account management.
- Water Management and Finance department staffs will meet to jointly establish this timeframe and will include this information in the MOU.
- Finance, Water Management and EO/EA staff are reviewing Proposals from 10 collection agencies to assist in delinquent collections.
- The Finance Department will use all legal means (collection calls, collections letters, debt set off, civil suits, and collections agencies) to pursue collections. The Finance Department is currently in the process of hiring several collection agencies and will develop specific plans and procedures. (May 2011)
- Implementation date for MOU: April 2011.

Recommendation 2:

The Department of Water Management should strengthen monitoring of delinquent accounts by:

- tracking data and trends on delinquent accounts over time,
- obtaining aging reports by account type to monitor collection activity, and
- analyzing the information and taking specific steps to determine the cause of delinquency. For instance, once an active account is 61 days delinquent, staff should follow up to determine why it is not paid or cut off.

Management's Response:

We concur. Water Management is in agreement with the recommendation; currently the department's Business Analyst periodically reviews aging reports and forwards information to the GBC for processing. Department of Water Management will expand its data tracking and review, as well as aging reports to incorporate the recommendations. This will require working with Technology Solutions and others as necessary to develop and implement the appropriate reports and review mechanisms.

To address active accounts greater than 60 days delinquent, the Billing Manager will review reports to ascertain billing errors, reasons for non-payment and ensure that payment arrangement protocols are being followed.

Implementation: Immediately

Recommendation 3:

The Water Management Department should develop payment plan guidelines. The guidelines should at least include:

- eligibility criteria,
- maximum number of payment plan arrangements that can be received on an account, procedures to ensure customers adhere to payment plan arrangements,
- document evidence of monitoring, and
- supervisory approval for exceptions to guidelines.

MANAGEMENT'S RESPONSE (CONTINUED)

Management's Response:

We concur. Staff has already drafted guidelines which incorporate the suggestions. The guidelines are currently under review.

Implementation Date: April 2011.

Recommendation 4:

The Finance Department should retain the services of Collection Agencies to facilitate collection of past due accounts. The Water Management and Finance Departments should establish and approve guidelines to govern the roles of the collection agency and City employees involved in the process. All processes should be clearly defined.

Management's Response:

We concur. Management is in full agreement with the recommendation. The Finance Department has already issued and received responses to an RFP for collection agency service and is currently in the process of selecting the firm(s) with whom the City contracts for this purpose. Department of Water Management is involved in the selection process as well. Subsequent to entering into a contract(s), detailed procedures will be developed.

Implementation Date: May 2011

Recommendation 5

The Department of Water Management should examine past due balances that are delinquent 3 years or more and determine if they are collectible. The Department should write off any uncollectible debt.

Management's Response:

We concur. We will implement the policies and measures developed by the Finance Department in Recommendation 6 below.

Implementation: May 2011

Recommendation 6

The Finance Department should establish a write off policy. The write off policy should clarify who is responsible for determining accounts for write off and the eligibility criteria necessary for account write off.

Management's Response:

We concur. Management is in agreement with the recommendation, and has already begun to draft such a policy. It is management's intent not to write off accounts for collection purposes until they are no longer legally collectible. However, currently, write-offs for financial statement reporting purposes are covered by an accounting procedure that reserves in an allowance for uncollectible debt any account more than 120 days outstanding. This practice will continue in accordance with generally accepted accounting principles.

Implementation Date: April 2011